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C O N F I D E N T I A L SECTION 01 OF 03 AMMAN 007153

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TAGS: EFIN JO IZ
SUBJECT: JORDAN'S FINANCE MINISTER ON DEBT POLICY, IRAQI ASSETS

REF: AMMAN 04410

Classified By: CDA: David HALE, Reasons 1.5 (b) and (d).

¶1. (C) SUMMARY: Jordan's Finance Minister reviewed how he hopes to reduce Jordan's debt burden, complying with a Jordanian debt management law setting a debt/GDP ratio of 60% by end-2006. He explored with a visiting Treasury delegation the measures he has taken and the steps he hopes to take to ease the debt burden. He also previewed a 100 million JD bond issuance that was held the next day, with bonds with a seven-year maturity, a first for Jordan. When asked about the final settlement of Jordanian commercial claims against frozen Iraqi assets, he expressed frustration that the settlement process was taking so long but hoped that it would be completed by mid-September. END SUMMARY.

Background on Jordan's Debt

¶2. (C) On August 16, Finance Minister Mohammad Abu Hammour met with a Treasury delegation to discuss a MEPI-funded proposal to house a Treasury debt specialist at the Finance Ministry to advise the GOJ on improving its debt management. In the course of the meeting, Abu Hammour provided an overview of his assessment of Jordan's debt situation. He said that during the previous two weeks, both the upper and lower houses of Parliament had met to discuss the debt situation in the country. The key topics of both sessions were how to cut both the level of the debt itself and the debt service.

¶3. (C) Providing some history, Abu Hammour explained that Jordan had arranged a number of concessional loans in the 1970's which were to come due in the late 1980's. Unfortunately for Jordan, the debt crises of the mid 1980's in other countries caused some of Jordan's lenders to change their terms. As a result, Jordan was forced to re-pay the debt it accrued in the first half of the 1980's in the last half of the decade, precipitating the 1989 financial crisis. Under a series of agreements with the Paris Club, Jordan received $5 billion in new loans as well as a $700 million write-off of debt owed to the U.S. and another $72 million owed the U.K. Jordan then pursued debt buy-backs and debt swaps to bring down the debt level further.

Public Debt Law

¶4. (C) Abu Hammour explained his desire to meet the targets set by Jordan's debt management law. The law, which does not set a target date, stipulates that Jordan's domestic debt must not exceed 60% of GDP nor should its foreign debt exceed 60% of GDP. In addition, Jordan's overall debt/GDP ratio should not exceed 80%. According to Abu Hammour, the government has set end-2006 as a deadline for these targets. In achieving the targets, Abu Hammour plans to cut both Jordan's debt stock and budget deficits as well as use the proceeds from government privatizations to buy back debt. He also hopes that Jordan's current strong growth rates will help improve the ratio.

¶5. (C) Abu Hammour repeated what post has earlier reported, that in his recent meetings with the Paris Club, he had requested that Jordan be allowed to increase its debt swap allowance from 30% to 50% of debt. He said he had also raised the idea with both the U.S. and Britain. Abu Hammour prefers to shift Jordan's borrowing more to domestic sources; noting that Jordan's debt burden had increased by $1 billion solely due to the appreciation of the euro. Although exporters benefit from a stronger euro, euro debtors do not. Abu Hammour added that Jordan's foreign official reserves stood at $4.7 billion. The Ministry could consider buying $1 billion in euros to hedge against a further deterioration in the dollar and the dollar/JD peg.

Hope for a Bond Market

¶6. (C) In that connection, Abu Hammour previewed a next-day announcement of a JD 100 million bond issuance for seven years, a longer term than earlier issuances. The auction was to be held August 18. Abu Hammour said he had spoken to all three of the banks involved in the auction and to the government's Social Security Corporation to ensure the issuance would be completely subscribed. The rate for the issuance would be 7-7.25%. According to Abu Hammour, previous government debt issuances had been for much shorter periods. In addition, Jordanians tend to hold the bonds to maturity, preventing development of a secondary bond market. (NOTE: A Finance Ministry official later reported that the auction was a great success. Instead of the JD 100 million sought, demand was so high that the government sold JD 177 million in bonds, at a rate of "around 7%." END NOTE.)

The Shape of the Debt

¶7. (U) Abu Hammour provided a copy of the Ministry's new quarterly bulletin on public debt and reviewed the structure of Jordan's debt. He noted that 44% of Jordan's debt was at a floating rate with 56% at a fixed rate. 29.4% of the debt was denominated in US dollars, 21.6% in Japanese yen, 20.3% in euros, 10.5% in Kuwaiti dinars, 8.4% in British pounds, 6.0% in SDRs and 3.8% in other currencies. In terms of maturities, 46.5% has maturities of more than 20 years; 43.3% maturities of 15 to 20 years; 9.9% five to fifteen years; and only 0.3% has maturities of one to five years. Finally, the debt with fixed interest rates includes 10.2% at more than 6%; 22.8% at 4-6%; 29.6% at 2-4%; and 37.5% at 0-2%.

Lowering the Debt

¶8. (C) Abu Hammour reviewed the four steps Jordan has taken in recent years to reduce its debt burden. These are (1) a buy-back of Brady bonds last year; (2) the debt swap with the British for 74 million pounds; (3) a 35 million euro debt swap with Germany; and (4) a $12 million debt swap with Spain. These moves helped cut Jordan's debt stock by $620 million, yielding a savings of $25 million per year over the next 20 years in reduced debt service payments.

¶9. (C) Abu Hammour said he has had discussions with the World Bank on partial risk guarantees. Jordan wants to attract strategic partners for state-owned companies the government is privatizing wholly or in part. In these cases, companies often want government guarantees but Jordanian law allows no such guarantees which would also count as additional debt. Abu Hammour hopes partial risk guarantees may be an alternative.

¶10. (C) Abu Hammour has also invited Moody's and Standard and Poor's to upgrade Jordan's credit rating and reviewed how he made his case to the two credit rating agencies. He told them that, for the first time, Jordan's domestic revenue covers the government's current expenditures as well as 20% of capital expenditures. Jordan continues to cut spending and the government currently enjoys higher revenues and lower spending than were originally budgeted.

¶11. (C) In other steps, government ministries have cut their telephone, water and electricity bills by an average of 20%, with the Finance Ministry itself leading the way by cutting those costs by 30%. Thanks to these and other measures, the budget deficit, excluding grants, for the first seven months of 2004 was half what it was during the same period in 2003. When grants are included, the budget shifted to a JD 50 million surplus compared with the same period last year, even though grants were lower by JD 250 million.

¶12. (C) Thanks in part to these steps, both of the credit rating agencies told Abu Hammour they will upgrade Jordan's rating. Abu Hammour welcomed the news even though he said Jordan currently has no intention to borrow overseas, due in part to excess liquidity in Jordan. Nevertheless, upgrades should help Jordan attract foreign investment.

Better Cash Management Needed

¶13. (C) In response to a question from Treasury about the need for better cash management, Abu Hammour said that the Ministry has begun focusing on financial management reforms. There is an on-going joint IMF/WB expenditure review of Jordan, and cash management is a part of that program. Jordan also enjoys French and Italian technical assistance in these areas. The Finance Ministry compiles a daily financial position report of government finances. During the fourth week of each month, the minister reviews the positions to decide whether to cut spending or take some other action to better meet IMF targets. Finally, Jordan is working with

Germany on developing a result-oriented budgeting system.

¶14. (C) As Abu Hammour explained, the Finance Minister previously met with each minister to direct and design the budget cuts for each ministry. Under the new system, the government agrees on an expenditure ceiling instead and lets each ministry set its own priorities.

¶15. (C) Abu Hammour has also prepared a plan for reform of financial management which has been approved by the cabinet. The plan targets each ministry's financial directorate to improve budgeting and to apply results-oriented budgeting precepts. In this connection, Abu Hammour said he would like technical assistance under this financial management reform plan for the period 2004-2006.

Projections

¶16. (C) Abu Hammour projects 8-9% nominal growth for Jordan in 2004 and the same rate of growth for 2005. He expects a deficit in 2005 of 3% of GDP and hopes the current debt/GDP ratio of 89.5% will fall another 6% in both 2004 and 2005. If debt needs to be financed, he want to do so from domestic sources.

Iraqi Assets

¶18. (C) ECOUNS asked whether the review of commercial claims against the frozen Iraqi assets was nearly complete. Abu Hammour said he had told Deputy Prime Minister Mohammad Halaiqa that the committee reviewing the assets needed to speed up the process. Abu Hammour says he still spends an hour and a half each day talking to members of Parliament about specific claims and that more than 1500 claims have been settled. He hopes the process can be completed by mid-September.

COMMENT

¶19. (C) Abu Hammour is clearly eager to get the frozen Iraqi assets issue behind him. It is apparently taking a significant part of his time. Nevertheless, Jordan has already made a significant contribution to re-building Iraq with its earlier transfers of $250 million to the DFI to date. Furthermore, Abu Hammour has assured us that if any paid claims are found to be fraudulent by the Iraqis, the funds will be reimbursed.

¶20. (C) In contrast to dealing with frozen Iraqi assets, Abu Hammour clearly relishes macroeconomic discussions. He is taking to heart the plan to reduce significantly Jordan's debt burden by the 2006 deadline set under the Public Debt Law. If he continues as minister for some time longer, he may view gaining control of Jordan's fiscal house his key legacy.
HALE